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TRADE AND DEVELOPMENT BOARD
Commission on Trade in Goods and Services,
and Commodities

REPORT OF THE EXPERT MEETING ON THE IMPACT OF CHANGING SUPPLY-AND-DEMAND MARKET STRUCTURES ON COMMODITY PRICES AND EXPORTS OF MAJOR INTEREST TO DEVELOPING COUNTRIES

Held at the Palais des Nations, Geneva,
from 7 to 9 July 1999

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I. AGREED CONCLUSIONS [1]

1. A large number of actions and policies could help to enhance the benefits of commodity production and trade for developing countries. These policy conclusions and recommendations are grouped here in three areas: (a) policies with regard to the general state of the world commodity economy (which corresponds most closely to the traditional domain of international commodity policy discussions); (b) policies specific to improving the domestic framework for commodity sector production, processing and trade, specifically in the light of market liberalization (these fall under the responsibility of Governments, but international organizations can provide valuable assistance, including in facilitating the transfer of expertise and experience among countries); and (c) policies with regard to the "nuts and bolts" of international trade, where certain conditions are necessary before developing countries can really benefit from globalization (an area where international support will in many cases be necessary).

A. The general state of the world commodity economy

1. Improving the transparency of international commodity markets

2. Information is crucial in international commodity trade. Information is a powerful tool, and highly relevant for smaller producers, and for commodities for which there are no organized futures markets or other mechanisms for ensuring price discovery and transparency. There are four basic approaches to improving information flows: (a) enhance the possibilities for those involved in commodity production and trade and, if they wish, commodity consumption, to exchange experience and ideas; (b) stimulate the development of publicly accessible "clearing houses" for international commodity sector information (prices, stock levels, etc.); (c) encourage more efficient dissemination and use of information; and (d) do research on questions about which little is known.

3. Given the natural information advantage of the large multinational companies, developing country producers and others involved in the commodity sector have an interest in a regular exchange of experience, with the backing, where relevant, of their Governments and international organizations through entities such as international commodity organizations and international study groups.

4. Such groups could go further than just discussing markets; they could actually act as focal points for the discussion of new sanitary and phytosanitary and product identification policies. For example, tightening standards are common for much of commodity trade. However, the new standards are far from uniform across countries, which causes additional costs, particularly to developing country producers, and may even become non-tariff barriers. There is a need for a mechanism whereby common industry standards (including for product labelling) for specific product imports can be adopted, and this is perhaps a role that could be taken on by such international commodity bodies.

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[1] As adopted by the Expert Meeting at its closing plenary meeting on 9 July 1999.

5. Apart from stimulating the exchange of experience and information as described above, there is a general role for organizations such as UNCTAD and the International Trade Centre UNCTAD/WTO, as well as the Common Fund for Commodities, international commodity bodies working on specific commodities and other international and regional organizations, to promote market transparency. Such efforts need to be strengthened, and merit more support from the international donor community. In this regard, due consideration should be given to making access to information affordable, in particular for the least developed countries.

6. More work is needed to ensure the efficient dissemination of information, and to provide the necessary training for users of such information to make good use of it.

7. As regards research, information on price formation at several levels of the marketing chain suggests that competition does not always work properly in the commodity sector. This would seem a priority area for research to be done by UNCTAD (and other interested parties), in particular to determine which parts of the distribution and marketing chain are absorbing margin increases and why, and, if anomalies are found, to identify possible policies to deal with this. Such research should encompass not only commodity markets, but also the markets for key inputs into commodity production; for example, one can note the increasing concentration among seed-producing companies.

2. Tackling the issues of tariff and non-tariff measures, and commodity sector subsidies

8. Non-tariff measures and subsidies in developed countries continue to be a problem for developing country agriculture. A commitment should be made at the forthcoming World Trade Organization (WTO) Ministerial Conference for the elimination of these subsidies as agreed in the Uruguay Round, and ensure that the non-tariff measures allowed under the Uruguay Round do not act as barriers to international trade.

3. Improving the management of the commodity sector

9. While world markets are of course important, Governments and the private sector should not lose sight of the often interesting opportunities that exist for commodity production and trade at the national and regional level.

10. Many developing country Governments lack clear information on which policies to adopt, given past experiences of other countries. This applies to issues related to the "infant industry" argument for the commodity sector, and to food security. There is a need for more research on these issues, with the objective of analysing national experiences in this regard, evaluating the effects of a greater dependency on international food markets, and formulating general principles for national policies. In many cases, an international agency could help in familiarizing Governments with possible policy options and their implications.

11. In some cases, policies which are in principle external to the commodity sector nevertheless have a large influence. For example, government taxes on commodity trade often have perverse effects, such as discouraging production or processing and stimulating smuggling. An inventory of national experiences and the formulation of policy guidelines on effective legal and regulatory frameworks, including commodity trade taxation policies, would be useful.

12. Much of the development of the commodity sector requires considerable finance, and in this respect, Governments should make efforts to attract capital to their commodity sectors; such efforts would then also stimulate the repatriation of the country's export earnings.

4. Enhancing the international market potential of the commodity sector

13. The international market potential of certain commodities is underexploited, and there are possibilities for growth. For example, technology does not just lead to the replacement of commodities by synthetic substitutes, but can also create new markets for commodities, as in the building industry or in geo-textiles. There is a need to support research which leads to such new end-uses, and to promote such new uses.

14. Diversification, into the production and exports of new commodities and into commodity processing as well as outside the commodity sector, should be pursued and encouraged as a viable strategy for reducing commodity dependence and maximizing socio-economic gains. Expanding the export base, value addition to commodity producers, valorization of by-products and the promotion of investment in this sector would require support in the form of technical and financial assistance from the international community.

15. The Common Fund for Commodities, being a major financier of commodity development activities, should continue to support research and development for promoting diversification and improvements in productivity and competitiveness. It should also continue to stimulate the creation of new demand outlets for developing country products, new end-uses, development and marketing of premium-quality products and promotion of investments in commodity development technologies.

16. There is also definite potential for brand-name products in national, regional and international markets. However, it is not clear what the most efficient way is to promote brands, that is, whether generic promotion or the promotion of country or specific brands is more efficient. It would be useful if an organization such as UNCTAD reviewed the importance of brand names, and the experiences of and in developing countries to promote them. Support should then be given to implementing the conclusions of such work.

5. Coping with international market shocks

17. Commodity sectors are increasingly vulnerable to international price shocks – this applies to both exporting and importing sectors, and even to those producing for the domestic market. Commodity producers worldwide have become exposed to fluctuations in currency markets. Apart from general policies to strengthen the financial system as a whole, specific preventive measures can be taken in the commodity sector to reduce the negative effects of financial crises.

18. Such shocks generally have a double impact on commodity producers in developing countries: first, world prices fall, often by more than would have been the case in a competitive world market because developed country producers are shielded from price falls through subsidies; and, second, financing costs become prohibitive. Thus, the severity of international crises for developing country commodity producers would be less if international commodity

markets were less distorted and if local financial institutions were better equipped to provide low-cost commodity finance (warehouse receipt finance and other forms of structured finance).

19. Governments should be given the leeway by international donor agencies to take the necessary measures to protect crucial sectors from the effects of international shocks. Moreover, they may be allowed temporary waivers from the commitments made under WTO.

20. Price instability is a fact of life, and while the extremes of such instability can be reduced by strengthening national economic systems and international cooperation, it should be realized that buyers and sellers have to take into account their expectations for future price developments when buying and selling, and when fixing prices through other means (including price risk management). What is needed is the empowerment of buyers and sellers so that they can optimize their choices and decisions. This implies, in particular, that their capacity to use price risk management markets has to be reinforced. UNCTAD, as well as the World Bank, has been active in this area for a long time, and the Common Fund for Commodities is starting projects in this field, but the strengthening of such international efforts is desirable.

21. The Common Fund for Commodities should strengthen and expand its assistance for the development of commodity markets in developing countries. Its support may focus, in particular, on physical market development, the promotion of commodity exchanges, and the enhancement of market infrastructure and support services, all with a view to stimulating private sector initiative and participation in commodity marketing.

22. Commodity-dependent developing countries are highly vulnerable to price volatility, and in this light, schemes such as STABEX (Système de stabilisation des recettes d'exportation) to compensate exporters (and in particular, the least developed among them) for loss of export earnings were deemed useful. However, ways to make such schemes more effective should be explored.

B. Creating efficient local markets in a liberalized environment

23. In the light of the penetration by international trade houses and other multinational companies into procurement and distribution activities in developing countries' domestic commodity markets, efforts need to be made to ensure that local farmers, processors and traders are in a position to participate equitably in these markets, for example by improving their access to essential services such as credit.

24. When liberalizing, it is advisable to do so gradually, and to ensure that the local private sector is able to take on new functions. Moreover, it is very difficult for producers from developing countries to compete, in an environment devoid of government support and protection, with highly subsidized farmers from developed countries. This has implications for the liberalization process: before fully opening up critical sectors to world market competition, developing country Governments need to have the time to strengthen their domestic commodity sectors. The measures involved are often quite straightforward, although there are evidently budgetary implications. Simple technologies can often make a big difference in the ability of producers to produce goods for the market place and to get them there. New tools like the Internet should not distract attention from the need to stimulate the basic development of the

physical market place, including through the spread of such simple technologies. Such actions could also help smaller players to continue competing with larger ones, who are otherwise more able to benefit from the advances in technology. For this, they need to be provided with international technical and financial assistance.

25. Once a liberalization programme has started, there is a need to accompany it with:

(a) Training and awareness-raising programmes for the private sector, including banks, on the basics of commodity trading (including quality aspects) and finance; and

(b) Institution-building, for cooperatives, traders and banks.

26. As a result of liberalization, farmers and consumers are often fully exposed to world market price instability. There is a need to explore the possibilities of market-based safety-net approaches (where Governments take the responsibility for providing the safety net, but lay off much of their risks in the market) both for export-oriented sectors and for the protection of low-income consumers.

27. After the withdrawal of the Government from commodity marketing, there has been a disruption in many countries in the supply of basic technology, extension services and inputs to farmers, quality control services, warehousing and transport, risk management, financing and market intelligence. To overcome this problem, the international community should assist Governments in:

(a) Identifying and promoting new models under which the private sector can provide such services, and undertake awareness-raising and training on these models; and

(b) Ensuring that such services continue to be provided to farmers until the private sector has built up its capacity to provide them, for example through the creation of new business-oriented government facilities.

28. With regard to both international and domestic markets (including the local marketing of exported or imported crops), in countries where Governments are getting out of commodity pricing and commodity trade, there is generally a need to support the emergence of new pricing and trading mechanisms, in order to ensure a transparent market place. In many (but not all) cases, the development of commodity exchanges of various kinds (trading physical commodities and/or forward or futures contracts, using a physical auction site or electronic means) can provide strong support for the creation of an efficient physical market place. The international community can support such efforts by providing policy advice to Governments on the opportunities afforded by commodity exchanges in a liberalized agricultural environment and on relevant regulatory structures, by providing training for exchange managers and potential exchange users, and by stimulating the exchange of experiences between country regulators and between exchanges.

29. Improving information and communication flows, when complemented with mechanisms that allow producers to respond effectively, is one of the most effective ways of strengthening the

market power of smaller actors, as exemplified by the recent experience of the National Food Authority in the Philippines regarding trade in maize. In this respect, there is a need for:

(a) Research on country experiences regarding the impact of information and communication systems on the marketing possibilities and marketing power of farmers and small traders;

(b) The formulation of policy models to enhance the use of such systems;

(c) Awareness-raising and training on these issues; and

(d) Financial support for the establishment of new networks.

30. Financing bottlenecks are often very important. Local banks in many, if not most, developing countries charge real interest rates and are often unfamiliar with agricultural lending. This makes exporters and local traders dependent on foreign buyers. In this area, there is a need for:

(a) Awareness-raising and training on financing schemes for the commodity sector, focused on banks as well as commodity-sector actors;

(b) The development of efficient warehouse receipt systems;

(c) The creation of linkages between local agricultural and financial markets; and

(d) The improvement of laws and regulations affecting commodity finance.

There is a case to be made for the strengthening of international institutional arrangements for support in this area (as well as in the related area of commodity price risk management), and UNCTAD and other international organizations are urged to explore the possibilities in this area.

31. Strengthening farmers' associations can be effective in enabling farmers to get access to information and credit, enhance their marketing power, improve their trading logistics and obtain access to risk management markets.

32. Regional economic groupings are important for allowing the development of regional trade, thus enabling economies of scale in freight and reducing transport costs, improving information flows and rationalizing quality standards. This would help to build sufficiently strong structures to perform properly in a globalized and liberalized environment.

C. Adapting to and realizing opportunities arising from international commodity market conditions

33. The international commodity market offers opportunities, but these opportunities cannot easily be realized by exporters from developing countries, who are often undercapitalized. This underlines the need for strengthening the access of developing country exporters, in particular those from the least developed countries, to finance markets. The international community should

provide support in this matter, including through the development of new commodity financing mechanisms.

34. One important problem area is that of meeting new sanitary and phytosanitary requirements as well as the Hazard Analysis Critical Control Point conditions. Whereas companies in developed countries often have access to the required resources, it can be difficult for developing country companies to adapt to such requirements, as they have to find the necessary funds themselves. In this area, there is a need for training and awareness-raising, exchange of experience and financial support.

35. Companies from developing countries can in many cases benefit from linkages with international companies in their bid to acquire the necessary technology, skills and systems; such linkages can also act as a stepping stone for new exports.

36. Producers cannot always exploit growing consumer demand for high-quality products because transport costs for such products tend to be high, and because intermediaries often absorb much of the quality premium. In effect, such intermediaries can even use tightening consumer demands as a tool to extract high quality for relatively low prices from producers. This suggests that it would be useful to create a mechanism whereby producers are more correctly informed about consumer demands in terms of premiums paid for quality.

37. South–South trade is growing, but it is often done by trading houses from the North, with finance passing through developed country banks. Efforts need to be made to develop the capacity of traders and banks in the exporting and importing countries to handle South–South trade by themselves. Training, awareness-raising and institution-building (particularly for banks) are essential for enabling developing countries to draw greater benefits from South–South trade. South–South trade could be further expanded with more regular meetings between buyers and sellers.

38. The physical infrastructure for trade (ports, roads, pipelines and handling facilities) is inadequate in many countries, resulting in costly and inefficient transport. Governments need to accept a greater role for the private sector in the provision of such infrastructure. Moreover, multilateral financial support for infrastructure is needed, as well as the promotion of a greater understanding of structured financing tools, and enhancement of the ability to use such tools.

39. Many developing countries spend a major part of their export earnings on commodity imports. Possible measures to reduce the costs of such imports include: improvements in the policy, legal and regulatory frameworks; stimulating the awareness and understanding by importers of international market conditions and systems; and improving access to finance (including through structured commodity finance).

40. In many countries, financing costs are not related as much to company risk as to sovereign risk, and the assessment of the latter is often subjective. UNCTAD could create more awareness among policy makers from developing countries of the determinants of sovereign risk, in order to allow them to try and improve their country's risk rating.

II. ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

41. In accordance with the recommendation made by the Commission on Trade in Goods and Services, and Commodities at the closing meeting of its third session, on 2 October 1998,[2] the Expert Meeting on the Impact of Changing Supply-and-Demand Market Structures on Commodity Prices and Exports of Major Interest to Developing Countries was held at the Palais des Nations, Geneva, from 7 to 9 July 1999. The meeting was opened on 7 July by Mr. John Cuddy, Director of the Division on International Trade in Goods and Services, and Commodities.

B. Election of officers

(Agenda item 1)

42. At its opening meeting, the Expert Meeting elected the following officers to serve on its bureau:

Chairperson:	Mr. David Hew	(Singapore)
Vice-Chairperson-cum-Rapporteur:	Mr. W.A. Bastiaanse	(Netherlands)

C. Adoption of the agenda

(Agenda item 2)

43. Also at its opening plenary meeting, the Expert Meeting adopted the provisional agenda circulated in TD/B/COM.1/EM.10/1. Accordingly, the agenda for the Meeting was as follows:

1. Election of officers
2. Adoption of the agenda
3. Impact of changing supply-and-demand market structures on commodity prices and exports of major interest to developing countries
4. Adoption of the outcome of the Meeting

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[2] See Report of the Commission on Trade in Goods and Services, and Commodities on its third session (TD/B/45/10-TD/B/COM.1/22), paragraph 83 (a).

D. Documentation

44. For its consideration of the substantive agenda item (item 3), the Expert Meeting had before it a report by the UNCTAD secretariat entitled "The impact of changing supply-and-demand market structures on commodity prices and exports of major interest to developing countries" (TD/B/COM.1/EM.10/2).

E. Adoption of the outcome of the Meeting

(Agenda item 4)

45. At its closing plenary meeting, on 9 July 1999, the Expert Meeting adopted the agreed conclusions reproduced in section I.

Annex

ATTENDANCE

1. Experts from the following States members of UNCTAD, attended the meeting:

Algeria
Bangladesh
Belarus
Bolivia
Brazil
Bulgaria
Burkina Faso
Cameroon
Canada
Chile
Colombia
Côte d'Ivoire
Czech Republic
Democratic Republic of the Congo
Dominican Republic
Ecuador
Ethiopia
Finland
France
Gambia
Germany
Guatemala
Guinea
Haiti
Honduras
India
Indonesia
Iran (Islamic Republic of)
Iraq
Italy
Jamaica
Lebanon
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mali
Mauritania
Mexico
Mongolia
Morocco
Mozambique
Netherlands
Nicaragua
Niger
Pakistan
Panama
Peru
Philippines
Republic of Korea
Russian Federation
Saint Lucia
Senegal
Sierra Leone
Singapore
South Africa
Spain
Sudan
Suriname
Sweden
Switzerland
Tunisia
Turkey
Turkmenistan
Uganda
Venezuela
Zimbabwe

2. The following intergovernmental organizations were represented at the meeting:

Arab Labour Organization
Common Fund for Commodities
Economic Community of the Great Lakes Countries
International Coffee Organization

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* For the list of participants, see TD/B/COM.1/EM.10/INF.1.

International Jute Organization
International Tropical Timber Organization
Organisation for Economic Co-operation and Development
South Centre

3. The following specialized agency and related organization were represented at the meeting:

Food and Agriculture Organization of the United Nations
World Trade Organization

4. The International Trade Centre UNCTAD/WTO was represented at the meeting.

5. The following non-governmental organizations were represented at the meeting:

General category

International Confederation of Free Trade Unions
World Federation of United Nations Associations

Special category

International Council of Nurses
Professional Association of Natural Rubber in Africa

6. The following people also participated in the meeting:

Resource persons

Mr. Luis Carlos Delanoe
Mr. James Gachui
Mr. Tan Seng Hock
Mr. H. Tarmidzi Rangkuti
Mr. Thiombino Taladidia
Mr. Roland Wiefels
Mr. El Hadj Amadou Wone
Mr. Philippe Chalmin
Mr. Dominique de Guerre
Ms. Claudine Ndayikengurutse
Mr. A. Belozertsev

Other participant

Mr. André Marie Roger SOUMAH, Executive Chairman, ACE Audit Control and Expertise